

MainePERS

Presentation to
Appropriations and Financial Affairs Committee
Tuesday, October 13, 2015

State/Teacher Plan Funding Update

- Challenging financial markets in 2015
- Two-year investment return period factored in to FY 18-19 budget ending 6/30/16
- An investment earnings assumption of 7.125% is factored into the Normal and UAL costs/rates
- Actual return for year ending 6/30/15 was 2%, and FY16 to date are **-1.3%**
- We are currently in the process of finalizing our actuarial valuations which will then update each plan's fiscal position at 6/30/15 and be reported in the upcoming CAFR

State/Teacher Plan

Funding Update

- Costs in millions are

| | <u>FY16</u> | <u>FY17</u> | <u>Total</u> |
|------------|-------------|-------------|--------------|
| ○ Normal - | \$ 72 | \$ 74 | \$ 146 |
| ○ UAL - | <u>222</u> | <u>230</u> | <u>452</u> |
| ○ Total | \$ 294 | \$ 304 | \$ 598 |
- Using the DOW Jones Industrial Average as a facsimile for how the MainePERS Consolidated Trust Fund will perform, the following chart estimates approximately what the FY 18-19 rates may look like

| Estimated | | | State Contributions | | |
|---------------|--------------|--------------|---------------------|--------------|--------------|
| 6/30/2016 | Estimated | 6/30/2016 | | | |
| DOW | Return | UAL | FY18 | FY19 | Biennium |
| 15,000 | -3.86% | \$2,623 | \$354.8 | \$367.2 | \$722.0 |
| 15,500 | -2.41% | 2,574 | 348.7 | 360.9 | 709.6 |
| 16,000 | -0.97% | 2,525 | 342.7 | 354.7 | 697.4 |
| 16,500 | 0.47% | 2,477 | 336.6 | 348.4 | 685.0 |
| 17,000 | 1.92% | 2,428 | 330.6 | 342.1 | 672.7 |
| 17,500 | 3.36% | 2,380 | 324.5 | 335.9 | 660.4 |
| 18,000 | 4.81% | 2,331 | 318.5 | 329.6 | 648.1 |
| 18,500 | 6.25% | 2,282 | 312.4 | 323.4 | 635.8 |
| 18,803 | 7.12% | 2,253 | 308.8 | 319.6 | 628.4 |
| 19,000 | 7.69% | 2,234 | 306.4 | 317.1 | 623.5 |
| 19,500 | 9.14% | 2,185 | 300.3 | 310.8 | 611.1 |

valuation assumption

UAL, Contributions expressed in millions of dollars

Society of Actuaries updated mortality tables - this will lead to a new experience study which may serve to increase in rates (some other plans had an 8% rate F) But it is still uncertain how it will affect Maine.

Long-Term Investors

- MainePERS is a long-term investor
- We plan for market volatility, and set our asset allocation to achieve long-term results
- We don't try and time the market
- We hold our public equities in index funds which over time perform similarly to active management

| At June 30th | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------|--------|-------|-------|-------|-------|-------|-------|
| 1 year | -18.8% | 11.1% | 22.4% | 0.6% | 11.1% | 16.7% | 2.0% |
| 3 year | -2.9% | -4.4% | 3.3% | 11.0% | 11.0% | 9.3% | 9.8% |
| 5 year | 1.9% | 1.6% | 4.4% | 1.5% | 4.3% | 12.1% | 10.3% |
| 10 year | 2.3% | 2.4% | 5.4% | 6.3% | 6.9% | 6.9% | 5.9% |
| 30 year | --- | 9.4% | 9.6% | 9.7% | 8.7% | 9.5% | 8.7% |

Investment Management

- MainePERS continues to consider its greatest investment risk to be contribution and/or contribution rate volatility
- The fund is transitioning to a different portfolio mix over time to address this risk

| | 2012 | 6/30/15 | Target |
|------------------------|------|---------|--------|
| US Stocks | 36% | 27% | 20% |
| International Stocks | 23% | 25% | 20% |
| Fixed Income | 29% | 24% | 25% |
| Real Estate | 6% | 10% | 10% |
| Private Equity | 1% | 5% | 10% |
| Infrastructure & Other | 5% | 9% | 15% |

State/Teacher Plan Funding Projection

- Factors which will influence FY 18-19 rates and contributions
 - Financial markets and investment returns through 6/30/2016
 - Liability experience through 6/30/2015
 - 2016 experience study
 - Updates MainePERS projections
 - Demographic (life expectancy, retirement, turnover and disability)
 - Financial (inflation, salary growth, investment returns)
 - One important factor is new life expectancy tables issued by the Society of Actuaries
 - Prior tables were 15 years old
 - Issue is not that maximum life expectancy has been extended, but that more people are reaching it
 - We do not yet know how this will affect MainePERS, but we anticipate a cost increase due to the new tables

LD 212

- Re-establishes the 4% COLA cap for a retiree whose spouse received Social Security Benefits and is now deceased
 - The Government Pension Offset (GPO) reduces a surviving spouses Social Security benefit by 2/3 of the surviving spouses MainePERS benefit
- LD 212 will create a fiscal note, which may be substantial, because approximately 95% of our members could qualify for this benefit
- MainePERS can engage our actuaries to determine the financial impacts to the normal and UAL costs
 - Normal costs increases are paid over time
 - 100% of UAL costs are due in the year the legislation is passed

LD 927

- Removes the early retirement age benefit reduction for certain employees, specifically in institutions that are closing
- LD 927 will create a fiscal note
 - Every year a member retires before the normal retirement age on which costs are calculated creates approximately 8%+ retirement costs for that member
 - These costs are currently subsidized by the Plan at 2%, reduced from 6% in 2011 legislation
- MainePERS can engage our actuaries to determine the financial impacts to the normal and UAL costs
 - These costs are difficult to calculate without additional information on which institutions might be affected and which might be subject to closure in the next 20 years

Other Updates

- Disability Task Force
 - MainePERS created a Disability Task Force in 2014 in response to concerns over disability application approvals which decreased from 70%+ in 2010 to 35%+ in 2013
 - MainePERS has been reviewing historical information to determine why this has changed and to date has no specific reasons to which we can point
 - Additional data points are
 - Legislation and a rule reverting to a prior practice may have had an impact
 - Social Security has experienced a similar, but not identical phenomenon
 - There is indication, but no way to confirm, that members may be applying earlier in their disability, creating a greater challenge for qualifying for permanent disability as required by Maine law

Other Updates

- Disability Task Force Continued
 - Actions to date
 - The Task Force, composed of 3 employer, 3 employee, 3 MainePERS and the MainePERS Executive Director as chair has found, started or completed the following
 - Survey of employers, most notably indicating employers and presumably members do not understand that the MainePERS program is a disability retirement, not a long-term disability program
 - The Task Force has approved for publication an interim report detailing its work-to-date
 - The Task Force supports working further on legislation to determine if providing optional long-term disability insurance will be helpful
 - MainePERS is working with outside disability experts to determine if there are any improvements that may be made in the retirement disability program